

RICHLAND PARISH HOSPITAL – DELHI

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORTFOR THE YEARS ENDED
SEPTEMBER 30, 2006, 2005, AND 2004

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 5-16-07

HOSPITAL SERVICE DISTRICT NO. 1A
OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
d/b/a RICHLAND PARISH HOSPITAL - DELHI
HOSPITAL ENTERPRISE FUND
YEARS ENDED SEPTEMBER 30, 2006, 2005, AND 2004

TABLE OF CONTENTS

	<u>Page No.</u>
Management's Discussion and Analysis	i-vi
Independent Auditors' Report on the Financial Statements and Supplementary Information	1-2
 Financial Statements	
Balance Sheets	3
Statements of Revenue, Expenses, and Changes in Net Assets	4
Statements of Cash Flows	5-6
Notes to Financial Statements	7-20
 Supplementary Information	
Schedules of Net Patient Service Revenue	22-25
Schedules of Other Operating Revenue	26
Schedules of Operating Expenses	27-29
Schedules of Per Diem and Other Compensation Paid to Board Members	30
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <u>GOVERNMENT AUDITING STANDARDS</u>	31-33

**HOSPITAL SERVICE DISTRICT NO. 1A
OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
d/b/a RICHLAND PARISH HOSPITAL - DELHI
MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of the annual financial report of Richland Parish Hospital Service District No. 1A (the Hospital) presents background information and management's analysis of the Hospital's financial performance during the fiscal year ended September 30, 2006. Please read it in conjunction with the financial statements in this report.

Financial Highlights

- The Hospital's total assets decreased approximately \$766,000 during fiscal year 2006 compared to an increase of \$847,000 and an increase of \$936,000 in fiscal years 2005 and 2004, respectively. The decrease in fiscal year 2006 was primarily in Board designated investments
- During the year, the Hospital's total operating revenues decreased approximately \$78,000 in fiscal year 2006 compared to a decrease of \$251,000 and an increase of \$1,844,000 in fiscal years 2005 and 2004, respectively.
- The Hospital received reimbursement of Uncompensated Care under the State's Medicaid Program in the amount of \$744,254 in 2006 as compared to \$820,713 and \$1,309,394 received in 2005 and 2004, respectively. In 2004, the Hospital received a retroactive payment of \$336,000 for uncompensated care reimbursement related to its rural health clinic services.
- The Hospital received \$336,503 in payments from a cooperative endeavor agreement which provides home health services to the Hospital's service area in fiscal year 2006 as compared to \$311,700 and \$199,489 received in 2005 and 2004, respectively

Required Financial Statements

The financial statements of the Hospital report information about the Hospital using Governmental Accounting Standards Board (GASB) accounting principles. These statements offer short-term and long-term financial information about its activities. The balance sheets include all of the Hospital's assets and liabilities and provide information about the nature and amount of investments in resources (assets) and the obligations to Hospital creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Hospital, and assessing the liquidity and financial flexibility of the Hospital. All of the current year's revenues and expenses are accounted for in the statements of revenue, expenses, and changes in net assets. This statement measures improvements in the Hospital's operations over the past years and can be used to determine whether the Hospital has been able to recover all of its costs through its patient service revenue and other revenue sources. The final required financial statement is the statement of cash flows. The primary purpose of this statement is to provide information about the Hospital's cash from operations, investing, and financing activities, and to provide answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

HOSPITAL SERVICE DISTRICT NO 1A
OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
d/b/a RICHLAND PARISH HOSPITAL - DELHI
MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis of the Hospital

The balance sheets and the statements of revenue, expenses, and changes in net assets report information about the Hospital's activities. These two statements report the net assets of the Hospital and changes in them. Increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in the health care industry, changes in Medicare and Medicaid regulations, and changes in managed care contracting should also be considered.

Net Assets

A summary of the Hospital's balance sheets are presented in Table 1 below:

TABLE 1
Condensed Balance Sheets
(in thousands)

	September 30,			
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Total Current Assets	\$ 2,958	\$ 2,626	\$ 3,297	\$ 2,918
Capital Assets - Net	3,273	3,135	2,430	2,560
Board Designated Investments	1,170	2,441	2,643	2,711
Other Investments	1,860	1,811	778	-0-
Other Assets	<u>2</u>	<u>16</u>	<u>34</u>	<u>57</u>
 Total Assets	 \$ <u>9,263</u>	 \$ <u>10,029</u>	 \$ <u>9,182</u>	 \$ <u>8,246</u>
 Current Liabilities	 \$ 664	 \$ 809	 \$ 561	 \$ 550
Long-Term Debt	<u>697</u>	<u>500</u>	<u>405</u>	<u>462</u>
 Total Liabilities	 1,361	 1,309	 966	 1,012
 Net Assets	 <u>7,902</u>	 <u>8,720</u>	 <u>8,216</u>	 <u>7,234</u>
 Total Liabilities and Net Assets	 \$ <u>9,263</u>	 \$ <u>10,029</u>	 \$ <u>9,182</u>	 \$ <u>8,246</u>

HOSPITAL SERVICE DISTRICT NO. 1A
OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
d/b/a RICHLAND PARISH HOSPITAL - DELHI
MANAGEMENT'S DISCUSSION AND ANALYSIS

Summary of Revenue, Expenses and Changes in Net Assets

TABLE 2
Condensed Statements of Revenue, Expenses and Changes in Net Assets
(in thousands)

	Year Ended September 30,			
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Net Patient Service Revenue	\$ 11,105	\$ 11,192	\$ 11,287	\$ 9,792
Other Revenue	<u>953</u>	<u>944</u>	<u>1,100</u>	<u>751</u>
Total Operating Revenue	<u>12,058</u>	<u>12,136</u>	<u>12,387</u>	<u>10,543</u>
Salaries and Benefits	8,838	8,030	7,690	7,373
Other Expenses	3,758	3,355	3,364	2,774
Depreciation and Amortization	<u>403</u>	<u>350</u>	<u>380</u>	<u>356</u>
Total Operating Expenses	<u>12,999</u>	<u>11,735</u>	<u>11,434</u>	<u>10,503</u>
Operating Income	(941)	401	953	40
Nonoperating Income	<u>123</u>	<u>103</u>	<u>29</u>	<u>37</u>
Excess of Revenue over Expenses	(818)	504	982	77
Net Assets - Beginning of Year	<u>8,720</u>	<u>8,216</u>	<u>7,234</u>	<u>7,157</u>
Net Assets - End of Year	\$ <u>7,902</u>	\$ <u>8,720</u>	\$ <u>8,216</u>	\$ <u>7,234</u>

Sources of Revenue

Operating Revenue

During fiscal year 2006, the Hospital derived the majority of its total revenue from patient service revenue. Patient service revenue includes revenue from the Medicare and Medicaid programs and patients, or their third-party payors, who receive care in the Hospital's facilities. Reimbursement for the Medicare and Medicaid programs and the third-party payors is based upon established contracts. The difference between the covered charges and the established contract is recognized as a contractual allowance. Other revenue includes cafeteria sales, joint venture, pharmacy sales to employees, vending machine and other miscellaneous services.

HOSPITAL SERVICE DISTRICT NO. 1A
OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
d/b/a RICHLAND PARISH HOSPITAL - DELHI
MANAGEMENT'S DISCUSSION AND ANALYSIS

Sources of Revenue (Continued)

Operating Revenue (Continued)

Table 3 presents the relative percentages of gross charges billed for patient services by payor for the fiscal years ended September 30, 2006, 2005, and 2004.

TABLE 3
Payor Mix by Percentage

	Year Ended September 30,		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Medicare	53%	53%	64%
Medicaid	15%	17%	16%
Commercial Insurance	25%	24%	14%
Self-Pay	<u>7%</u>	<u>6%</u>	<u>6%</u>
Total Patient Revenue	<u>100%</u>	<u>100%</u>	<u>100%</u>

Operating and Financial Performance

The following summarizes the Hospital's statements of revenue, expenses and changes in net assets between 2006 and 2005:

Overall activity at the Hospital, as measured by acute patient discharges, decreased to 915 discharges in 2006 from 1,088 discharges in 2005. Acute and swing bed patient days decreased to 4,393 in 2006 from 4,840 in 2005. As a result, the average length of stay for acute care patients was 2.9 days in 2006 as compared to 3.0 and 3.3 in 2005 and 2004, respectively.

Salaries increased by approximately \$522,000 from the prior year. The majority of the increase is in administration and general departments, which increased full-time equivalents from 19.5 to 23.3.

Employee benefits increased by approximately \$286,000 from the prior year. The majority of the increase is related to the cost of the health insurance. Since the Hospital is self-insured for health insurance, the Hospital can experience significant increases and decreases in cost from year to year.

The cost of professional fees increased by approximately \$227,000. This increase is primarily due to the utilization of contract emergency room physicians, whereas in the past all emergency room physicians were on salary.

HOSPITAL SERVICE DISTRICT NO. 1A
OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
d/b/a RICHLAND PARISH HOSPITAL - DELHI
MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating and Financial Performance (Continued)

TABLE 4
Patient and Hospital Statistical Data

	Year Ended September 30,		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Discharges:			
Adult and pediatric	915	1,088	1,038
Swing bed	245	201	226
Psychiatric care	-	76	81
Patient days:			
Adult and pediatric	2,610	3,316	3,442
Medicare (included in adult and pediatric)	1,663	1,973	2,391
Medicaid (included in adult and pediatric)	577	849	650
Swing bed	1,783	1,524	2,024
Psychiatric care	-	775	1,052
Emergency room visits	4,797	5,021	4,944
Average daily census:			
Adult and pediatric	7.2	9.1	9.4
Swing bed	4.9	4.2	5.5
Psychiatric care	-	2.1	2.9
Average length of stay:			
All patients	2.9	3.0	3.3
Medicare patients	2.7	3.2	3.9
Medicaid patients	2.0	3.0	2.3
Swing bed	7.3	7.6	9.0
Psychiatric care	-	10.2	13.0
Percentage of total acute patient days:			
Medicare	64%	59%	69%
Medicaid	22%	26%	19%
Rural health clinic visits	28,174	27,174	24,851
Full-time equivalents (FTEs)	178.5	176.1	175.4

HOSPITAL SERVICE DISTRICT NO. 1A
OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
d/b/a RICHLAND PARISH HOSPITAL - DELHI
MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets

Table 5 summarizes major additions to capital assets:

TABLE 5
Major Hospital Additions

	Year Ended September 30, <u>2006</u>
Expansion and renovation of kitchen and cafeteria	\$ 156,000
PACS system	216,000
Bone density machine	55,000
Patient monitoring equipment	<u>40,000</u>
 Total	 \$ <u>467,000</u>

Long-Term Debt

At year-end, the Hospital had approximately \$880,000 in short-term and long-term debt. This has increased by approximately \$281,000 in fiscal year 2006. In the current year the Hospital acquired new equipment under capital lease obligations totaling \$412,772. The Hospital paid \$131,276 in principal payments on outstanding debt for the fiscal year. More detailed information about the Hospital's long-term liabilities is presented in the notes to the financial statements.

Contacting the Hospital's Financial Manager

This financial report is designed to provide our citizens, customers and creditors with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Hospital administration.



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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Hospital Service District No. 1A
Parish of Richland, State of Louisiana
Delhi, Louisiana

We have audited the accompanying financial statements of Hospital Service District No. 1A, Parish of Richland, (the Hospital), a component unit of the Richland Parish Police Jury, as of and for the years ended September 30, 2006, 2005, and 2004, as listed in the foregoing table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hospital Service District No. 1A, Parish of Richland, as of September 30, 2006, 2005, and 2004, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated February 21, 2007, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audits were made for the purpose of forming an opinion on the Hospital's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Board of Commissioners
Hospital Service District No. 1A
Parish of Richland, State of Louisiana
Delhi, Louisiana
Page Two

Management's discussion and analysis on pages "i" through "vi" is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Lester, Miller & Wells

Certified Public Accountants
February 21, 2007



HOSPITAL SERVICE DISTRICT NO. 1A
OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
d/b/a RICHLAND PARISH HOSPITAL - DELHI
HOSPITAL ENTERPRISE FUND
BALANCE SHEETS
SEPTEMBER 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>			
Current			
Cash and cash equivalents (Notes 2 & 3)	\$ 339,105	\$ 133,342	\$ 1,489,970
Accounts receivable, net (Note 4)	1,697,799	1,900,674	1,355,654
Estimated third-party payor settlements	403,138	118,864	84,110
Due from joint venture	94,859	83,433	61,958
Accrued interest receivable	67,142	85,468	31,762
Inventory	288,892	276,606	246,876
Prepaid expenses	<u>67,211</u>	<u>27,716</u>	<u>26,981</u>
Total Current Assets	2,958,146	2,626,103	3,297,311
Property, plant, and equipment, net (Note 5)	3,273,288	3,134,850	2,429,796
Investments	1,781,826	1,733,144	700,000
Investment in joint venture	77,419	77,419	77,419
Assets whose use is limited (Note 6)	1,170,371	2,440,636	2,643,251
Other (Note 7)	<u>2,279</u>	<u>16,592</u>	<u>34,061</u>
Total Assets	\$ <u>9,263,329</u>	\$ <u>10,028,744</u>	\$ <u>9,181,838</u>
<u>LIABILITIES AND NET ASSETS</u>			
Current			
Accounts payable	\$ 125,744	\$ 269,051	\$ 204,433
Accrued expenses	355,524	440,789	287,803
Estimated third-party payor settlements	-0-	-0-	11,492
Current portion of long-term debt	<u>183,069</u>	<u>98,679</u>	<u>57,300</u>
Total Current Liabilities	664,337	808,519	561,028
Long-Term			
Capital lease obligations	415,010	155,054	-0-
Certificates of indebtedness (Note 8)	<u>282,300</u>	<u>345,150</u>	<u>405,150</u>
Total Liabilities	1,361,647	1,308,723	966,178
Net Assets			
Invested in capital assets, net of related debt	2,738,059	2,941,117	2,429,796
Restricted	176,899	201,207	144,416
Unrestricted	<u>4,986,724</u>	<u>5,577,697</u>	<u>5,641,448</u>
Total Net Assets	7,901,682	8,720,021	8,215,660
Total Liabilities and Net Assets	\$ <u>9,263,329</u>	\$ <u>10,028,744</u>	\$ <u>9,181,838</u>

See accompanying notes to financial statements

HOSPITAL SERVICE DISTRICT NO. 1A
OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
d/b/a RICHLAND PARISH HOSPITAL - DELHI
HOSPITAL ENTERPRISE FUND
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED SEPTEMBER 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenue			
Net patient service revenue	\$ 11,104,607	\$ 11,192,261	\$ 11,287,312
Gain (loss) on disposal of assets	350	2,730	394,419
Grants	287,881	220,745	171,847
Property tax revenue	126,094	126,521	114,753
Other operating revenue	<u>539,421</u>	<u>593,426</u>	<u>418,803</u>
Total Revenue	<u>12,058,353</u>	<u>12,135,683</u>	<u>12,387,134</u>
Expenses			
Salaries	7,478,645	6,956,852	6,649,169
Employee benefits	1,359,197	1,072,940	1,040,708
Supplies and drugs	559,553	534,091	605,750
Professional fees	468,593	242,019	97,484
Other expenses	2,425,540	2,257,135	2,328,192
Insurance	304,854	322,152	333,184
Depreciation	402,944	340,153	324,215
Amortization	<u>-0-</u>	<u>9,630</u>	<u>55,311</u>
Total Expenses	<u>12,999,326</u>	<u>11,734,972</u>	<u>11,434,013</u>
Operating Income (Loss)	<u>(940,973)</u>	<u>400,711</u>	<u>953,121</u>
Nonoperating Income (Loss)			
Interest income on investments whose use is limited	92,933	69,585	46,934
Interest income, other	63,519	57,589	4,391
Interest expense	<u>(33,818)</u>	<u>(23,524)</u>	<u>(22,594)</u>
Total Nonoperating Income (Loss)	<u>122,634</u>	<u>103,650</u>	<u>28,731</u>
Excess of Revenue over Expenses	(818,339)	504,361	981,852
Net Assets Beginning of Year	<u>8,720,021</u>	<u>8,215,660</u>	<u>7,233,808</u>
Net Assets End of Year	\$ <u>7,901,682</u>	\$ <u>8,720,021</u>	\$ <u>8,215,660</u>

See accompanying notes to financial statements.

HOSPITAL SERVICE DISTRICT NO. 1A
OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
d/b/a RICHLAND PARISH HOSPITAL - DELHI
HOSPITAL ENTERPRISE FUND
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:			
Cash received from patients and third-party payors	\$ 11,023,208	\$ 10,600,995	\$ 11,847,905
Other receipts from operations	956,283	936,686	748,089
Cash payments to employees and for employee-related cost	(8,923,107)	(7,916,861)	(7,663,586)
Cash payments for other operating expenses	<u>(3,935,302)</u>	<u>(3,344,525)</u>	<u>(3,437,016)</u>
Net cash provided (used) by operating activities	<u>(878,918)</u>	<u>276,295</u>	<u>1,495,392</u>
Cash flows from investing activities:			
Cash invested in assets whose use is limited	-0-	(92,784)	(1,366,591)
Cash proceeds from assets whose use is limited	1,270,265	295,399	1,433,940
Cash proceeds from certificates of deposit	451,318	-0-	-0-
Cash invested in certificates of deposit	(500,000)	(1,033,144)	(700,000)
Interest income	<u>156,452</u>	<u>127,174</u>	<u>51,325</u>
Net cash provided (used) by investing activities	<u>1,378,035</u>	<u>(703,355)</u>	<u>(581,326)</u>
Cash flows from capital and related financing activities:			
Proceeds from sales of property, plant and equipment	350	2,730	317,000
Acquisition of property, plant and equipment	(128,610)	(838,677)	(193,694)
Principal payments on long-term debt	(131,276)	(70,097)	(54,750)
Interest expense	<u>(33,818)</u>	<u>(23,524)</u>	<u>(22,594)</u>
Net cash provided (used) by capital and related financing activities:	<u>(293,354)</u>	<u>(929,568)</u>	<u>45,962</u>
Net increase (decrease) in cash and cash equivalents	205,763	(1,356,628)	960,028
Beginning cash and cash equivalents	<u>133,342</u>	<u>1,489,970</u>	<u>529,942</u>
Ending cash and cash equivalents	\$ <u>339,105</u>	\$ <u>133,342</u>	\$ <u>1,489,970</u>

See accompanying notes to financial statements.

HOSPITAL SERVICE DISTRICT NO. 1A
OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
d/b/a RICHLAND PARISH HOSPITAL - DELHI
HOSPITAL ENTERPRISE FUND
STATEMENTS OF CASH FLOWS (Continued)
YEARS ENDED SEPTEMBER 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Reconciliation of income from operations to net cash provided by operating activities:			
Operating income (loss)	\$ (940,973)	\$ 400,711	\$ 953,121
Adjustments to reconcile revenue in excess of expenses to net cash provided by operating activities:			
Depreciation	402,944	340,153	324,215
Amortization	-0-	9,630	55,311
(Gain) loss on disposal of assets	(350)	(2,730)	(394,419)
Provision for bad debts	1,193,157	1,287,549	932,994
Change in current assets (increase) decrease			
Patient accounts receivable, net	(990,282)	(1,832,569)	(566,819)
Estimated third-party payor settlements	(284,274)	(34,754)	231,600
Due from joint venture	(11,426)	(21,475)	19,708
Accrued interest receivable	18,326	(53,706)	(11,319)
Inventory	(12,286)	(29,730)	(12,905)
Prepaid expenses	(39,495)	(735)	(12,505)
Change in current liabilities (increase) decrease			
Accounts payable	(143,307)	64,618	(33,099)
Accrued expenses	(85,265)	152,986	79,024
Estimated third-party payor settlements	-0-	(11,492)	(37,182)
Change in other assets (increase) decrease	<u>14,313</u>	<u>7,839</u>	<u>(32,333)</u>
Net cash provided by operating activities	\$ <u>(878,918)</u>	\$ <u>276,295</u>	\$ <u>1,495,392</u>
Supplemental disclosure of cash flow information:			
Cash paid during the period for interest	\$ <u>32,488</u>	\$ <u>23,049</u>	\$ <u>23,022</u>
Equipment purchased under capital lease obligations	\$ <u>412,772</u>	\$ <u>206,530</u>	\$ <u>-0-</u>

See accompanying notes to financial statements.

HOSPITAL SERVICE DISTRICT NO. 1A
OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
d/b/a RICHLAND PARISH HOSPITAL - DELHI
HOSPITAL ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2006, 2005, AND 2004

NOTE 1 - ORGANIZATION AND OPERATIONS

Legal Organization

Richland Parish Hospital Service District No. 1A (the Hospital or the District) was created by an ordinance of the Richland Parish Police Jury on April 18, 1989. The District is comprised of and embraces the territory contained within Ward 1 of the Parish of Richland, State of Louisiana, as constituted as of the date of the ordinance.

Effective as of October 1, 1989, Richland Parish Hospital Service District No. 1 (which operated hospitals in Delhi and Rayville) transferred operations of the hospital in Delhi to Richland Parish Hospital Service District No. 1A, along with all related assets, liabilities, and equity.

The Hospital is a political subdivision of the Richland Parish Police Jury whose jurors are elected officials. The Hospital's commissioners are appointed by the Richland Parish Police Jury. As the governing authority of the Parish, for reporting purposes, the Richland Parish Police Jury is the financial reporting entity for the Hospital. Accordingly, the Hospital was determined to be a component unit of the Richland Parish Police Jury based on Statement No. 14 of the National Committee on Governmental Accounting. The accompanying financial statements present information only on the funds maintained by the governmental services provided by that governmental unit or the other governmental units that comprise the financial reporting entity.

Nature of Business

The District provides outpatient, skilled nursing (through "swing-beds"), home health (by joint venture effective August 1, 2002) and acute inpatient hospital services.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Enterprise Fund

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Basis of Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That use Proprietary Fund Accounting*, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements. Such accounting and reporting procedures conform to the requirements of the Louisiana Revised Statute 24:514 and to the guide set forth in the Louisiana Governmental Audit Guide, and to the AICPA, Audit and Accounting Guide - Health Care Organizations, published by the American Institute of Certified Public Accountants.

HOSPITAL SERVICE DISTRICT NO. 1A
OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
d/b/a RICHLAND PARISH HOSPITAL - DELHI
HOSPITAL ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2006, 2005, AND 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of deposits in checking and money market accounts and certificates of deposit with original maturities of 90 days or less. Certificates of deposit with original maturities over 90 days are classified as short-term investments. Cash and cash equivalents and short-term investments are stated at cost, which approximates market value. The caption "cash and cash equivalents" does not include amounts whose use is limited or temporary cash investments.

Credit Risk

The District provides medical care primarily to Richland Parish residents and grants credit to patients substantially all of whom are local residents.

The District's estimate of collectibility is based on evaluation of historical collections compared to gross charges and an analysis of aged accounts receivable to establish an allowance for uncollectible accounts.

Significant Concentration of Economic Dependence

The District has an economic dependence on a small number of staff physicians. These physicians admit over 90% of the Hospital's patients. The Hospital also has an economic dependence on Medicare and Medicaid as sources of payments as shown in the table in Note 12. Changes in federal or state legislation or interpretations of rules have a significant impact on the Hospital.

Net Patient Service Revenues

The District has entered into agreements with third-party payors, including government programs, health insurance companies, and managed care health plans, under which the Hospital is paid based upon established charges, the cost of providing services, predetermined rates per diagnosis, fixed per diem rates, or discounts from established charges.

Revenues are recorded at estimated amounts due from patients and third-party payors for the Hospital services provided. Settlements under reimbursement agreements with third-party payors are estimated and recorded in the period the related services are rendered and are adjusted in future periods as final settlements are determined.

Inventory

Inventories are stated at the lower of cost determined by the first-in, first-out, or market basis.

Income Taxes

The entity is a political subdivision and exempt from taxation. Additionally, the District has received approval to be recognized as an organization described under Section 501(c)3 of the Internal Revenue Code

HOSPITAL SERVICE DISTRICT NO 1A
OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
d/b/a RICHLAND PARISH HOSPITAL - DELHI
HOSPITAL ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2006, 2005, AND 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Plant, and Equipment

Property, plant, and equipment is recorded at cost for purchased assets or at fair market value on the date of any donation. The Hospital uses straight-line method of determining depreciation for financial reporting and third-party reimbursement. The following estimated useful lives are generally used.

Buildings and Improvements	5 to 40 years
Machinery and Equipment	3 to 20 years
Furniture and Fixtures	3 to 20 years

Expenditures for additions, major renewals and betterments are capitalized and expenditures for maintenance and repairs are charged to operations as incurred.

The cost of assets retired or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts in the year of disposal. Gains or losses resulting from property disposals are credited or charged to operations currently.

Net Assets

Net assets consist of net assets invested in capital assets (property and equipment), net of related debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of related debt consist of capital assets net of accumulated depreciation and outstanding balance of any related debt that is attributable to the acquisition of the capital assets. Restricted net assets are those assets that are externally restricted by creditors, grantors, contributors, or laws and regulations, or those restricted by constitutional provisions and enabling legislation. Unrestricted net assets consist of all other assets. When both restricted and unrestricted resources are available for use, it is the Hospital's policy to use restricted resources first, then unrestricted resources as they are needed.

Revenues and Expenses

The Hospital's statements of revenues, expenses, and changes in net assets distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity. Nonexchange revenues are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

HOSPITAL SERVICE DISTRICT NO 1A
OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
d/b/a RICHLAND PARISH HOSPITAL - DELHI
HOSPITAL ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2006, 2005, AND 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The Hospital maintains records to identify and monitor the level of charity care it provides. These records reflect the amount of charges foregone, \$59,143, \$50,130, and \$17,592 for 2006, 2005, and 2004, respectively, for services and supplies furnished under its charity care policy.

NOTE 3 - DEPOSITS AND INVESTMENTS

Investing is performed in accordance with investment policies complying with state statutes. Funds may be invested in direct obligations of the United States Government and its agencies pledged by its full faith and credit, certificates of deposit and savings accounts which are secured by FDIC or pledge of securities, and government backed mutual or trust funds.

Custodial Credit Risks – Custodial credit risk for deposits is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it. Louisiana state statutes require that all of the deposits of the Hospital be protected by insurance or collateral. The fair value of the collateral pledged must equal 100% of the deposits not covered by insurance. The Hospital's deposits were entirely insured or entirely collateralized by securities held by the pledging bank's trust department in the Hospital's name at September 30, 2006, 2005 and 2004.

Interest Rate Risks – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

NOTE 4 - ACCOUNTS RECEIVABLE

Patient accounts receivable are reported net of estimated contractual adjustments as required by GAAP. A summary of accounts receivable at September 30 is presented below:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Patient accounts receivable	\$ 2,308,020	\$ 2,502,146	\$ 1,776,726
Other accounts receivable	<u>(221)</u>	<u>(6,472)</u>	<u>5,928</u>
	2,307,799	2,495,674	1,782,654
Estimated uncollectibles	<u>(610,000)</u>	<u>(595,000)</u>	<u>(427,000)</u>
Net patient accounts receivables	\$ <u>1,697,799</u>	\$ <u>1,900,674</u>	\$ <u>1,355,654</u>

HOSPITAL SERVICE DISTRICT NO. 1A
OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
d/b/a RICHLAND PARISH HOSPITAL - DELHI
HOSPITAL ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2006, 2005, AND 2004

NOTE 4 - ACCOUNTS RECEIVABLE (Continued)

The following is a mix of gross receivables from patients and third-party payors at September 30:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Medicare	49%	47%	4%
Medicaid	4%	7%	6%
Commercial and other third-party payors	30%	32%	75%
Patients	<u>17%</u>	<u>14%</u>	<u>15%</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

NOTE 5 - PROPERTY, PLANT, AND EQUIPMENT

The following is a summary of property, plant, and equipment and related accumulated depreciation for the years ended September 30:

	Beginning Balance	<u>2006</u>		Ending Balance
		Additions	Dispositions	
Land	\$ 159,695	\$ -0-	\$ -0-	\$ 159,695
Buildings and improvements	4,096,930	518,410	-0-	4,615,340
Major movable equipment	3,636,752	124,660	7,763	3,753,649
Property held under capital leases	206,530	412,772	-0-	619,302
Construction in progress	<u>533,467</u>	<u>112,750</u>	<u>627,210</u>	<u>19,007</u>
Total	8,633,374	1,168,592	634,973	9,166,993
Accumulated depreciation	<u>5,498,524</u>	<u>402,944</u>	<u>7,763</u>	<u>5,893,705</u>
Net	\$ <u>3,134,850</u>	\$ <u>765,648</u>	\$ <u>627,210</u>	\$ <u>3,273,288</u>

HOSPITAL SERVICE DISTRICT NO. 1A
OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
d/b/a RICHLAND PARISH HOSPITAL - DELHI
HOSPITAL ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2006, 2005, AND 2004

NOTE 5 - PROPERTY, PLANT, AND EQUIPMENT (Continued)

	<u>2005</u>			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Ending Balance</u>
Land	\$ 159,695	\$ -0-	\$ -0-	\$ 159,695
Buildings and improvements	4,026,458	70,472	-0-	4,096,930
Major movable equipment	3,369,508	267,244	-0-	3,636,752
Property held under capital leases	-0-	206,530	-0-	206,530
Construction in progress	32,506	500,961	-0-	533,467
 Total	 7,588,167	 1,045,207	 -0-	 8,633,374
Accumulated depreciation	5,158,371	340,153	-0-	5,498,524
 Net	 \$ 2,429,796	 \$ 705,054	 \$ -0-	 \$ 3,134,850

	<u>2004</u>			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Ending Balance</u>
Land	\$ 115,000	\$ 44,695	\$ -0-	\$ 159,695
Buildings and improvements	3,916,696	109,762	-0-	4,026,458
Major movable equipment	3,281,436	96,072	8,000	3,369,508
Construction in progress	89,341	51,227	108,062	32,506
 Total	 7,402,473	 301,756	 116,062	 7,588,167
Accumulated depreciation	4,842,156	324,215	8,000	5,158,371
 Net	 \$ 2,560,317	 \$ (22,459)	 \$ 108,062	 \$ 2,429,796

Property, plant, and equipment was transferred from Hospital Service District No. 1 of Richland Parish as of October 1, 1989, at historical cost. The accumulated depreciation was transferred at the recorded value to continue the existing basis of valuation and accounting

HOSPITAL SERVICE DISTRICT NO. 1A
OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
d/b/a RICHLAND PARISH HOSPITAL - DELHI
HOSPITAL ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2006, 2005, AND 2004

NOTE 6 - ASSETS WHOSE USE IS LIMITED

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Restricted by Hospital Board:			
To be used for asset additions and replacements			
Certificates of deposit	\$ 993,472	\$ 2,239,429	\$ 2,498,835
LHA trust deposits	<u>176,899</u>	<u>201,207</u>	<u>144,416</u>
Assets whose use is limited	\$ <u>1,170,371</u>	\$ <u>2,440,636</u>	\$ <u>2,643,251</u>

NOTE 7 - OTHER ASSETS

Other assets consist of the following:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Start-up cost	\$ -0-	\$ -0-	\$ 9,630
Medical scholarships receivable	<u>2,279</u>	<u>16,592</u>	<u>24,431</u>
Total	\$ <u>2,279</u>	\$ <u>16,592</u>	\$ <u>34,061</u>

Medical scholarships receivable are amounts paid to student doctors for tuition. These scholarships are an incentive to attract physicians to the local community. If the physician establishes his or her practice locally, then the scholarship is deemed as being repaid over time. Otherwise, there are provisions for the physician to repay the scholarship with interest.

HOSPITAL SERVICE DISTRICT NO. 1A
OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
d/b/a RICHLAND PARISH HOSPITAL - DELHI
HOSPITAL ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2006, 2005, AND 2004

NOTE 8 - LONG-TERM DEBT

A summary of long-term debt, including capital lease obligations, at September 30, follows:

	<u>2005</u>	<u>Additions</u>	<u>Payments</u>	<u>2006</u>	<u>Due Within One Year</u>
Certificates of indebtedness Series 02	\$ 405,150	\$ -0-	\$ 60,000	\$ 345,150	\$ 62,850
Capital lease obligations	<u>193,733</u>	<u>412,772</u>	<u>71,276</u>	<u>535,229</u>	<u>120,219</u>
Total	\$ <u>598,883</u>	\$ <u>412,772</u>	\$ <u>131,276</u>	\$ <u>880,379</u>	\$ <u>183,069</u>

	<u>2004</u>	<u>Additions</u>	<u>Payments</u>	<u>2005</u>	<u>Due Within One Year</u>
Certificates of indebtedness Series 02	\$ 462,450	\$ -0-	\$ 57,300	\$ 405,150	\$ 60,000
Capital lease obligations	<u>-0-</u>	<u>193,733</u>	<u>-0-</u>	<u>193,733</u>	<u>38,679</u>
Total	\$ <u>462,450</u>	\$ <u>193,733</u>	\$ <u>57,300</u>	\$ <u>598,883</u>	\$ <u>98,679</u>

	<u>2003</u>	<u>Additions</u>	<u>Payments</u>	<u>2004</u>	<u>Due Within One Year</u>
Certificates of indebtedness Series 02	\$ <u>517,200</u>	\$ <u>-0-</u>	\$ <u>54,750</u>	\$ <u>462,450</u>	\$ <u>57,300</u>

The following are the terms and due dates of the Hospital's long-term debt at September 30:

- 4.7 percent Series 2002 Certificates of Indebtedness, due February 1, 2011, collateralized by a pledge and dedication of the District's ad valorem tax revenues through 2010.
- Capital lease obligations, at varying rates of imputed interest from 3.75 percent to 3.95 percent collateralized by leased equipment.

HOSPITAL SERVICE DISTRICT NO. 1A
OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
d/b/a RICHLAND PARISH HOSPITAL - DELHI
HOSPITAL ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2006, 2005, AND 2004

NOTE 8 - LONG-TERM DEBT (Continued)

Scheduled principal and interest payments of bonds payable and payments on capital lease obligations are as follows:

Year Ending September 30:	<u>Long-term Debt</u>		<u>Capital Lease Obligations</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 62,850	\$ 14,745	\$ 120,219	\$ 21,643
2008	65,800	11,722	122,274	15,845
2009	68,900	8,556	127,601	10,519
2010	72,100	5,243	117,665	4,997
2011	<u>75,500</u>	<u>1,774</u>	<u>47,470</u>	<u>785</u>
Totals	\$ <u>345,150</u>	\$ <u>42,040</u>	\$ <u>535,229</u>	\$ <u>53,789</u>

NOTE 9 - AFFILIATED ORGANIZATION

Affiliated organizations include Richland Parish Hospital Service District No. 1, Richland Parish Hospital Service District No. 1B, and the Richland Parish Police Jury. The districts are related because they are all political subdivisions of the Richland Parish Police Jury who appoints their commissioners. During the fiscal years ended September 30, the Hospital had the following transactions and balances with its affiliated organization, Richland Parish Hospital Service District No. 1B, dba Richardson Medical Center.

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Beginning amount due to Richardson Medical Center	\$ -0-	\$ (1,762)	\$ 1,192
Expenses incurred by the Hospital and payable by the Hospital	5,034	16,411	19,965
Payments by the Hospital to Richardson Medical Center	<u>(5,034)</u>	<u>(14,649)</u>	<u>(22,919)</u>
Ending amount due to Richardson Medical Center	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>(1,762)</u>

HOSPITAL SERVICE DISTRICT NO 1A
OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
d/b/a RICHLAND PARISH HOSPITAL - DELHI
HOSPITAL ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2006, 2005, AND 2004

NOTE 10 - PENSION PLAN

The Hospital elected to withdraw from the Social Security System effective as of January 1, 1993. In place of the Social Security System, the Hospital established a defined contribution annuity plan. Employees are eligible to participate upon date of employment and, after one year of service, the employee is fully vested in the employer's matching contribution. Contributions to the plan by the Hospital are determined by the Board of Commissioners, at a minimum of 6.2% of the participant's compensation. The amounts charged to pension expense under this plan were \$508,745, \$416,761 and \$392,392 for the years ended September 30, 2006, 2005 and 2004, respectively.

NOTE 11 - COMPENSATED ABSENCES

Employees of the Hospital are entitled to paid days off and sick days depending on length of service. The Hospital accrued \$158,622, \$147,708 and \$132,392 of vacation pay at September 30, 2006, 2005 and 2004, respectively. It is impracticable to estimate the amount of compensation for future unvested sick pay and, accordingly, no liability has been recorded in the accompanying financial statements. The District's policy is to recognize the cost of unvested sick pay when actually paid to employees.

NOTE 12 - PATIENT SERVICE REVENUE

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows.

Medicare - Prior to October 1, 2005, inpatient acute care services rendered to Medicare program beneficiaries were paid at prospectively determined rates per discharge. These rates varied according to a patient classification system that was based on clinical, diagnostic and other factors. Certain outpatient services related to Medicare beneficiaries were paid based on a set fee per diagnosis, with a hold harmless provision for cost reimbursement. Swing bed routine services were reimbursed based upon a prospectively determined rate per patient day based on clinical diagnostic, and other factors. Effective October 1, 2005, the District became a "Critical Access Hospital" (CAH). This designation enables the District to receive cost based reimbursement for most hospital services provided to Medicare beneficiaries on or after this date.

The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare fiscal intermediary. The District's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the District. The District's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2005.

Medicaid - Inpatient services are reimbursed based on a prospectively determined per diem rate. Some outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology, while others are paid prospectively based on a fee schedule. The District is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicaid fiscal intermediary.

HOSPITAL SERVICE DISTRICT NO. 1A
OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
d/b/a RICHLAND PARISH HOSPITAL - DELHI
HOSPITAL ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2006, 2005, AND 2004

NOTE 12 - PATIENT SERVICE REVENUE (Continued)

Commercial - The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. Payment methods under these agreements include prospectively determined rates per discharge, discounts from established charges and prospectively determined per diem rates.

The following is a summary of the Hospital's net patient revenues for the years ended September 30:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Gross patient service revenues	\$ 16,953,320	\$ 17,860,200	\$ 17,311,226
Contractual adjustments	(5,340,667)	(6,150,973)	(6,382,722)
Provision for bad debts	(1,193,157)	(1,287,549)	(932,994)
Discounts	(59,143)	(50,130)	(17,592)
Uncompensated care reimbursement	<u>744,254</u>	<u>820,713</u>	<u>1,309,394</u>
Net patient service revenues	\$ <u>11,104,607</u>	\$ <u>11,192,261</u>	\$ <u>11,287,312</u>

The Hospital receives a substantial portion of its revenues from the Medicare and Medicaid programs at discounted rates. The following is a summary of Medicare and Medicaid patient revenues for the years ended September 30:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Medicare and Medicaid gross patient charges	\$ 13,150,529	\$ 13,592,414	\$ 13,911,627
Contractual adjustments, including uncompensated care reimbursement	<u>(3,623,218)</u>	<u>(4,623,500)</u>	<u>(4,354,734)</u>
Program patient service revenue	\$ <u>9,527,311</u>	\$ <u>8,968,914</u>	\$ <u>9,556,893</u>
Percent of total patient gross charges	<u>78%</u>	<u>76%</u>	<u>80%</u>
Percent of total patient revenues	<u>86%</u>	<u>80%</u>	<u>85%</u>

The Hospital received interim amounts of \$744,254, \$820,713 and \$1,309,394 for Medicaid and self-pay uncompensated care services for the years ended September 30, 2006, 2005, and 2004, respectively, which represents 7%, 7%, and 12% of net patient service revenues, respectively. The interim amounts received are based upon uncompensated cost incurred in previous years. Current regulations require retroactive audit of the claimed uncompensated cost and comparison to the interim amounts paid by Medicaid in each fiscal year. Any overpayments will be recouped by Medicaid and the Hospital has not made any provisions for such recoupments. Management contends interim amounts paid reasonably estimate final settlement. To the extent management's estimates differ from actual results, the differences will be used to adjust income for the

HOSPITAL SERVICE DISTRICT NO. 1A
OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
d/b/a RICHLAND PARISH HOSPITAL - DELHI
HOSPITAL ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2006, 2005, AND 2004

NOTE 12 - PATIENT SERVICE REVENUE (Continued)

period when differences arise. Should the State not fund or substantially change this program it would have a significant impact on the Hospital's revenue.

NOTE 13 - PROFESSIONAL LIABILITY RISK

The Hospital participates in the Louisiana Patient's Compensation Fund ("PCF") established by the State of Louisiana to provide medical professional liability coverage to healthcare providers. The fund provides for \$400,000 in coverage per occurrence above the first \$100,000 per occurrence for which the Hospital is at risk. The fund places no limitation on the number of occurrences covered. In connection with the establishment of the PCF, the State of Louisiana enacted legislation limiting the amount of healthcare provider settlement for professional liability to \$100,000 per occurrence and limited the PCF's exposure to \$400,000 per occurrence.

The Hospital's membership in the Louisiana Hospital Association Trust Fund provides additional coverage for professional medical malpractice liability. The trust fund bills members in advance, based upon an estimate of their census. At policy year-end, premiums are re-determined utilizing actual utilization of the Hospital. The trust fund presumes to be a "Grantor Trust" and, accordingly, income and expenses are prorated to member hospitals. The Hospital has not included these allocations or equity in the trust in its financial statements which reflect cash transactions with the trust fund as insurance expense or a reduction thereof.

NOTE 14 - CONTINGENCIES

The Hospital evaluates contingencies based upon the best available evidence. The Hospital believes that no allowances for loss contingencies are considered necessary. To the extent that resolution of contingencies results in amounts which vary from the Hospital's estimates, future earnings will be charged or credited.

The principal contingencies are described below:

Governmental Third-Party Reimbursement Programs (Note 12) - The Hospital is contingently liable for retroactive adjustments made by the Medicare and Medicaid programs as the result of their examinations as well as retroactive changes in interpretations applying statutes, regulations and general instructions of those programs. The amount of such adjustments cannot be determined.

Further, in order to continue receiving reimbursement from the Medicare program, the Hospital entered into an agreement with a government agent allowing the agent access to the Hospital's Medicare patient medical records for purposes of making medical necessity and appropriate level of care determinations. The agent has the ability to deny reimbursement for Medicare patient claims which have already been paid to the Hospital.

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as privacy, licensure, accreditation, government healthcare program participating requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of

HOSPITAL SERVICE DISTRICT NO. 1A
OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
d/b/a RICHLAND PARISH HOSPITAL - DELHI
HOSPITAL ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2006, 2005, AND 2004

NOTE 14 - CONTINGENCIES (Continued)

fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse statutes as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Professional Liability Risk (Note 13) - The Hospital is contingently liable for losses from professional liability not underwritten by the Louisiana Patient's Compensation Fund or the Louisiana Hospital Association Trust Fund as well as for assessments by the Louisiana Hospital Association Trust Fund.

The Hospital participates in the Louisiana Hospital Association Self-Insurance Workmen's Compensation Trust Fund. Should the fund's assets not be adequate to cover claims made against it, the Hospital may be assessed its pro rata share of the resulting deficit. It is not possible to estimate the amount of additional assessments, if any. Accordingly, the Hospital is contingently liable for assessments by the Louisiana Hospital Association Trust Fund.

The Hospital also participates in the Louisiana Hospital Association Self-Insurance Employee Benefits Trust Fund. If the fund's assets are not adequate to cover the claims made against it, the Hospital will be assessed its pro rata share of the resulting deficit. It is not possible to estimate the amount of additional assessments, if any. Accordingly, the Hospital is contingently liable for assessments by the Louisiana Hospital Association Trust Fund. The District has acquired stop-loss insurance to cover individual claims exceeding \$20,000 or aggregate claims exceeding \$1,000,000 per year.

NOTE 15 - JOINT VENTURE

The Hospital entered into a cooperative endeavor agreement on August 15, 2001, with Delhi Homecare, LLC. The agreement's intention is to ensure that home health services are readily available to the residents of the Hospital's district. The Hospital participates in profits and losses equal to seventy-one percent (71%) within its service area. Outside of the Hospital's service area, the participation is lowered to twenty-nine percent (29%). The Hospital's liability for losses is limited to the amount of the annual rent paid by Delhi Homecare, LLC. The Hospital does not have an equity interest in the cooperative endeavor, therefore accounts for this arrangement using the cost method. The Hospital terminated its cooperative endeavor agreement effective October 1, 2003, with Delhi Homecare, LLC and entered into a new agreement. Under the terms of the new agreement, the Hospital agreed to change its profit sharing percentage from seventy-one percent (71%) and twenty-nine percent (29%) to thirty-three percent (33%) in exchange for \$315,000 and a thirty-three percent (33%) equity interest in Delhi Homecare, LLC. The \$315,000 plus the \$77,419 of equity interest acquired by the Hospital has been reported as a gain on sale of assets.

HOSPITAL SERVICE DISTRICT NO 1A
OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
d/b/a RICHLAND PARISH HOSPITAL - DELHI
HOSPITAL ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2006, 2005, AND 2004

NOTE 16 - COMMITMENTS

The Hospital has entered into a purchase commitment for a new computer system which includes hardware and software costs. The agreement totaled \$541,546 of which the Hospital has paid \$18,000 towards this commitment as of September 30, 2006.

NOTE 17 - DISCONTINUED OPERATIONS

The Hospital discontinued its inpatient psychiatric services on September 1, 2005. The following is a summary of the inpatient psychiatric operations for the years ended September 30:

	<u>2006</u>		<u>2005</u>		<u>2004</u>
Net inpatient psychiatric revenues	\$ -0-	\$	642,897	\$	897,641
Operating expenses	<u>-0-</u>		<u>476,712</u>		<u>527,939</u>
Income from operations	\$ <u>-0-</u>	\$	<u>166,185</u>	\$	<u>369,702</u>

NOTE 18 - AD VALOREM TAXES

The Hospital levies a property tax on all property subject to taxation in the service district. A 6.15 mill tax runs for a period of ten years, beginning with the year 2002 and ending with the year 2012, to be dedicated and used for operating, maintaining, renovating, and improving emergency medical services. Property taxes are collected through the local sheriff's office and remitted, net of collection fees, to the Hospital. Property tax notices are mailed by November 15 each year, due by December 31, and are considered delinquent by January 31.

SUPPLEMENTARY INFORMATION

HOSPITAL SERVICE DISTRICT NO 1A
OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
d/b/a RICHLAND PARISH HOSPITAL - DELHI
HOSPITAL ENTERPRISE FUND
SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED SEPTEMBER 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Routine Services:			
Adult and pediatric	\$ 787,937	\$ 1,036,383	\$ 1,059,967
Swing bed	320,220	274,860	363,240
Psychiatric unit	<u>-0-</u>	<u>657,900</u>	<u>905,250</u>
Total Routine Services	<u>1,108,157</u>	<u>1,969,143</u>	<u>2,328,457</u>
Other Professional Services:			
Operating room			
Inpatient acute	18,475	61,424	25,528
Outpatient	<u>787,467</u>	<u>893,344</u>	<u>117,316</u>
Total	<u>805,942</u>	<u>954,768</u>	<u>142,844</u>
Anesthesia			
Inpatient acute	-0-	-0-	310
Outpatient	<u>-0-</u>	<u>-0-</u>	<u>2,170</u>
Total	<u>-0-</u>	<u>-0-</u>	<u>2,480</u>
Radiology			
Inpatient acute	235,480	381,293	422,527
Outpatient	925,460	929,831	928,427
Swing bed	64,443	53,270	62,697
Psychiatric unit	<u>-0-</u>	<u>15,974</u>	<u>31,183</u>
Total	<u>1,225,383</u>	<u>1,380,368</u>	<u>1,444,834</u>
Laboratory			
Inpatient acute	332,491	576,408	497,258
Outpatient	1,697,131	1,559,402	1,310,664
Swing bed	68,749	64,270	75,956
Psychiatric unit	<u>-0-</u>	<u>34,626</u>	<u>40,517</u>
Total	<u>2,098,371</u>	<u>2,234,706</u>	<u>1,924,395</u>
Blood			
Inpatient acute	106,714	84,770	78,926
Outpatient	6,690	4,160	-0-
Swing bed	<u>10,955</u>	<u>6,855</u>	<u>11,107</u>
Total	\$ <u>124,359</u>	\$ <u>95,785</u>	\$ <u>90,033</u>

HOSPITAL SERVICE DISTRICT NO. 1A
OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
d/b/a RICHLAND PARISH HOSPITAL - DELHI
HOSPITAL ENTERPRISE FUND
SCHEDULES OF NET PATIENT SERVICE REVENUE (Continued)
YEARS ENDED SEPTEMBER 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Respiratory therapy			
Inpatient acute	\$ 672,325	\$ 912,271	\$ 876,424
Outpatient	195,178	150,964	98,938
Swing bed	423,164	348,967	530,343
Psychiatric unit	<u>-0-</u>	<u>21,034</u>	<u>20,907</u>
Total	<u>1,290,667</u>	<u>1,433,236</u>	<u>1,526,612</u>
Physical therapy			
Inpatient acute	9,024	29,685	16,539
Outpatient	303,142	310,992	336,407
Swing bed	<u>58,767</u>	<u>48,377</u>	<u>79,188</u>
Total	<u>370,933</u>	<u>389,054</u>	<u>432,134</u>
Occupational therapy			
Inpatient acute	3,654	8,345	5,976
Outpatient	241,375	225,616	197,717
Swing bed	<u>40,186</u>	<u>33,686</u>	<u>50,543</u>
Total	<u>285,215</u>	<u>267,647</u>	<u>254,236</u>
Speech therapy			
Inpatient acute	750	-0-	-0-
Outpatient	13,950	-0-	-0-
Swing bed	<u>5,640</u>	<u>-0-</u>	<u>-0-</u>
Total	<u>20,340</u>	<u>-0-</u>	<u>-0-</u>
Electrocardiology			
Inpatient acute	56,113	133,026	115,758
Outpatient	145,861	136,579	118,024
Swing bed	2,976	2,604	3,472
Psychiatric unit	<u>-0-</u>	<u>11,284</u>	<u>12,028</u>
Total	<u>204,950</u>	<u>283,493</u>	<u>249,282</u>
Central supply			
Inpatient acute	65,005	56,842	76,815
Outpatient	67,785	50,977	41,390
Swing bed	53,821	34,628	39,811
Psychiatric unit	<u>-0-</u>	<u>3,468</u>	<u>2,153</u>
Total	\$ <u>186,611</u>	\$ <u>145,915</u>	\$ <u>160,169</u>

HOSPITAL SERVICE DISTRICT NO. 1A
 OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
 d/b/a RICHLAND PARISH HOSPITAL - DELHI
 HOSPITAL ENTERPRISE FUND
 SCHEDULES OF NET PATIENT SERVICE REVENUE (Continued)
 YEARS ENDED SEPTEMBER 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Pharmacy			
Inpatient acute	\$ 1,196,497	\$ 1,456,171	\$ 1,460,942
Outpatient	779,774	656,373	635,191
Swing bed	638,262	536,508	674,427
Psychiatric unit	<u>-0-</u>	<u>116,732</u>	<u>147,718</u>
Total	<u>2,614,533</u>	<u>2,765,784</u>	<u>2,918,278</u>
IOP/PHP Psychiatric therapy sessions			
Outpatient	<u>1,741,600</u>	<u>928,000</u>	<u>979,200</u>
Cardio rehabilitation			
Outpatient	<u>138,690</u>	<u>203,520</u>	<u>168,625</u>
Certified diabetic education			
Outpatient	<u>21,215</u>	<u>19,060</u>	<u>14,435</u>
Emergency room			
Inpatient acute	49,575	199,202	185,477
Outpatient	1,208,737	1,111,611	1,055,615
Psychiatric unit	<u>-0-</u>	<u>665</u>	<u>565</u>
Total	<u>1,258,312</u>	<u>1,311,478</u>	<u>1,241,657</u>
Observation room			
Outpatient	<u>15,807</u>	<u>12,906</u>	<u>7,056</u>
Rural health			
Clinic	<u>3,363,822</u>	<u>3,358,114</u>	<u>3,140,194</u>
School-based			
Clinic	<u>49,904</u>	<u>60,949</u>	<u>59,255</u>
Mental health rehabilitation			
Clinic	<u>-0-</u>	<u>21,925</u>	<u>197,975</u>
Transportation			
Outpatient	\$ <u>28,509</u>	\$ <u>24,349</u>	\$ <u>29,075</u>

HOSPITAL SERVICE DISTRICT NO 1A
OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
d/b/a RICHLAND PARISH HOSPITAL - DELHI
HOSPITAL ENTERPRISE FUND
SCHEDULES OF NET PATIENT SERVICE REVENUE (Continued)
YEARS ENDED SEPTEMBER 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Other Professional Services			
Inpatient acute	\$ 2,746,103	\$ 3,899,437	\$ 3,762,480
Outpatient	8,318,371	7,217,684	6,040,250
Clinics	3,413,726	3,440,988	3,397,424
Swing bed	1,366,963	1,129,165	1,527,544
Psychiatric unit	<u>-0-</u>	<u>203,783</u>	<u>255,071</u>
Total Other Professional Services	<u>15,845,163</u>	<u>15,891,057</u>	<u>14,982,769</u>
Gross Patient Service Charges	<u>16,953,320</u>	<u>17,860,200</u>	<u>17,311,226</u>
Deductions from Revenue:			
Contractual allowances	5,340,667	6,150,973	6,382,722
Provision for bad debts	1,193,157	1,287,549	932,994
Uncompensated care reimbursement	(744,254)	(820,713)	(1,309,394)
Policy discount	<u>59,143</u>	<u>50,130</u>	<u>17,592</u>
Total Deductions from Revenue	<u>5,848,713</u>	<u>6,667,939</u>	<u>6,023,914</u>
Net Patient Service Revenue	\$ <u>11,104,607</u>	\$ <u>11,192,261</u>	\$ <u>11,287,312</u>

HOSPITAL SERVICE DISTRICT NO. 1A
 OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
 d/b/a RICHLAND PARISH HOSPITAL - DELHI
 HOSPITAL ENTERPRISE FUND
 SCHEDULES OF OTHER OPERATING REVENUE
 YEARS ENDED SEPTEMBER 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Pharmacy sales to employees	\$ 37,137	\$ 35,909	\$ 35,979
Television	-0-	-0-	272
Cafeteria	103,321	80,967	79,373
Medical records	5,385	5,581	4,889
Vending machines	25,341	31,836	31,702
Rentals	39,500	44,200	26,000
Joint venture	336,503	311,700	199,489
LHA insurance trust increase (decrease) in equity	(24,308)	56,791	-0-
Contributions	174	-0-	-0-
Miscellaneous	<u>16,368</u>	<u>26,442</u>	<u>41,099</u>
 Total other operating revenue	 \$ <u>539,421</u>	 \$ <u>593,426</u>	 \$ <u>418,803</u>

HOSPITAL SERVICE DISTRICT NO. 1A
OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
d/b/a RICHLAND PARISH HOSPITAL - DELHI
HOSPITAL ENTERPRISE FUND
SCHEDULES OF OPERATING EXPENSES – SALARIES AND BENEFITS
YEARS ENDED SEPTEMBER 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Administration	\$ 951,801	\$ 733,337	\$ 634,141
Plant operations and maintenance	132,386	72,909	72,778
Housekeeping	104,652	107,786	108,100
Dietary	183,388	154,177	146,365
Inservice	72,997	53,723	41,720
Central supply	16,191	11,539	12,323
Pharmacy	187,025	143,207	153,793
Medical records	217,858	177,336	179,364
Nursing services - Inpatient acute	952,576	859,873	834,808
Nursing services - Geriatric psychiatric	-0-	317,745	389,940
Operating room	59,911	62,391	32,272
Radiology	192,155	179,054	163,431
Laboratory	434,770	377,951	350,725
Respiratory therapy	201,599	187,777	154,703
Physical therapy	278,105	201,467	193,075
EKG	36,907	26,908	27,098
IOP/PHP - Psychiatric therapy	288,113	240,434	275,241
Cardio rehabilitation	119,392	114,360	102,694
Certified diabetic education	41,683	37,946	34,530
Rural health clinic	1,952,454	1,901,455	1,739,046
Emergency room	797,751	765,389	754,890
Home health	-0-	-0-	6,933
School based health clinic	177,830	162,399	160,162
Mental health rehabilitation clinic	-0-	-0-	7,373
Transportation	79,101	67,689	73,664
Total salaries	<u>7,478,645</u>	<u>6,956,852</u>	<u>6,649,169</u>
Hospital insurance	722,815	540,843	538,021
Retirement plan	508,745	416,761	392,392
Payroll taxes	98,609	94,989	92,320
Other	29,028	20,347	17,975
Total benefits	<u>1,359,197</u>	<u>1,072,940</u>	<u>1,040,708</u>
Total salaries and benefits	<u>\$ 8,837,842</u>	<u>\$ 8,029,792</u>	<u>\$ 7,689,877</u>

HOSPITAL SERVICE DISTRICT NO 1A
 OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
 d/b/a RICHLAND PARISH HOSPITAL - DELHI
 HOSPITAL ENTERPRISE FUND
 SCHEDULES OF OPERATING EXPENSES – PROFESSIONAL FEES
 YEARS ENDED SEPTEMBER 30,

	<u>2006</u>		<u>2005</u>		<u>2004</u>
Nursing services - Geriatric psychiatric	\$ -0-	\$	-0-	\$	250
Radiology	20,456		5,242		1,435
Laboratory	76,902		68,194		19,731
Physical therapy	-0-		30		61
Inpatient psychiatric fees	3,600		62,400		62,467
Emergency room	365,835		98,473		-0-
Rural health clinic	-0-		-0-		100
Mental rehabilitation	-0-		3,000		12,000
EKG	<u>1,800</u>		<u>4,680</u>		<u>1,440</u>
 Total professional fees	 \$ <u>468,593</u>	\$	 <u>242,019</u>	\$	 <u>97,484</u>

HOSPITAL SERVICE DISTRICT NO. 1A
 OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
 d/b/a RICHLAND PARISH HOSPITAL - DELHI
 HOSPITAL ENTERPRISE FUND
 SCHEDULES OF OPERATING EXPENSES – OTHER EXPENSES
 YEARS ENDED SEPTEMBER 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Contract services	\$ 400,559	\$ 408,748	\$ 568,436
Legal and accounting	83,445	45,807	122,198
Supplies	1,123,701	1,061,462	1,044,792
Repairs and maintenance	226,640	218,174	192,318
Utilities	145,537	139,556	135,473
Telephone	62,521	55,081	54,801
Travel	62,608	43,884	29,539
Rentals	175,376	123,350	60,834
Education	40,742	27,026	31,064
Recruitment and advertising	40,523	76,023	41,593
Dues and subscriptions	18,215	14,273	7,359
Miscellaneous	<u>45,673</u>	<u>43,751</u>	<u>39,785</u>
 Total other expenses	 \$ <u>2,425,540</u>	 \$ <u>2,257,135</u>	 \$ <u>2,328,192</u>

HOSPITAL SERVICE DISTRICT NO. 1A
 OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
 d/b/a RICHLAND PARISH HOSPITAL - DELHI
 HOSPITAL ENTERPRISE FUND
 SCHEDULES OF PER DIEM AND
 OTHER COMPENSATION PAID TO BOARD MEMBERS
 YEARS ENDED SEPTEMBER 30,

----- TERM -----

	<u>BEGAN</u>	<u>ENDING</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Board Members:					
Mr. Charles Black	04/18/89	06/06/11	NONE	NONE	NONE
Mrs. Eleanor Jones	04/18/89	05/07/07	NONE	NONE	NONE
Mr. Jimmy Hopson	04/18/89	09/15/09	NONE	NONE	NONE
Dr. Paul Grandon	08/20/93	09/15/09	NONE	NONE	NONE
Mr. Nathan Monroe	05/07/01	05/07/09	NONE	NONE	NONE



LESTER, MILLER & WELLS

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Commissioners
Hospital Service District No. 1A
Parish of Richland, State of Louisiana
Delhi, Louisiana

We have audited the financial statements of the Richland Parish Hospital Service District No. 1A, (the District or the Hospital) as of and for the years ended September 30, 2006, 2005, and 2004, and have issued our report thereon dated February 21, 2007. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Board of Commissioners
Hospital Service District No 1A
Parish of Richland, State of Louisiana
Delhi, Louisiana
Page Two

We noted certain matters that we reported to management in the attached schedule.

This report is intended for the information of the Board of Commissioners, management and the office of the Legislative Auditor of the State of Louisiana. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Lester, Miller & Wells

Certified Public Accountants
February 21, 2007



HOSPITAL SERVICE DISTRICT NO. 1A
OF THE PARISH OF RICHLAND, STATE OF LOUISIANA
d/b/a RICHLAND PARISH HOSPITAL - DELHI
AUDITOR'S COMMENTS AND RECOMMENDATIONS
YEAR ENDED SEPTEMBER 30, 2006

Internal Controls

None

Compliance

None

Management Suggestions

2006-01

Finding: The Hospital reported a substantial loss during the fiscal year ended September 30, 2006. The loss was mostly attributable to an increase in expenditures.

Recommendation: We recommend reviewing expenses and related revenues to determine where efficiencies can be attained and profitability is maximized.

Management's Response: Management has reviewed the areas of concern and is implementing changes in order to increase profitability.

